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C O N F I D E N T I A L SECTION 01 OF 04 ANKARA 001513

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DEPARTMENT FOR EUR/SE AND PM/DTCP

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TAGS: [PREL](#) [PGOV](#) [MARR](#) [MASS](#) [TU](#)

SUBJECT: DECLINE IN TURKISH-AMERICAN DEFENSE INDUSTRY
COOPERATION

REF: A. ANKARA 1153

[B](#). ANKARA 623
[C](#). ANKARA 386
[D](#). 05 ANKARA 6507
[E](#). 05 ANKARA 4081
[F](#). 05 ANKARA 3846
[G](#). 05 ANKARA 3617
[H](#). 05 ANKARA 2024

Classified By: Ambassador Ross Wilson, reasons 1.4 (b) and (d).

[1](#). (C) SUMMARY: Defense industrial cooperation, historically the strongest area of US-Turkish bilateral relationship, has deteriorated in recent years. No US firm has won a direct commercial sale (DCS) since 2002 and post-contract negotiations hamper the few US direct sale and FMS projects that are approved. Onerous terms and conditions (T&Cs) in SSM's new "standard" contract may keep US firms out of three large tenders. The military insists it prefers US equipment but claims it has little influence over defense purchases. The Turkish Land Forces Command (TLFC) has quietly expressed an interest in the Foreign Military Sales (FMS) program. SSM U/S Murad Bayar stresses his interest in US defense competition, but has made little effort to change the contract terms. At the same time Bayar is pressing for significant work share in the Joint Strike Fighter (JSF) program. Bayar will try to court US officials in Washington on the margins of the annual American-Turkish Council (ATC) conference. END SUMMARY.

US FIRMS FIND TURKISH DEFENSE MARKET UNWELCOMING

[2](#). (U) Turkey has had a policy of developing an indigenous defense industry since the arms embargoes we and some Europeans countries imposed in the 70's and 80's over Cyprus and human rights concerns. Subsequently, in response to the 2001 economic crisis, Turkey's defense spending -- like other government spending -- was curtailed. Following a rebound of the economy, SSM has accelerated its efforts to grow the domestic defense industry by imposing significant (50-60%) offset and technology transfer requirements in direct commercial tenders. US defense firms felt the full impact of this policy with the Feb. 2005 introduction of SSM's new "standard" contract in the attack helicopter tender.

[3](#). (U) The contract, according to those US defense firms that have reviewed it, contains several provisions that conflict with US policy: 1) contractor's government must provide general approval of a project at the time of bid submission; 2) contractor must assume liability for changes in contractor government's policy which impact on the project. Additionally the contract requires contractors to provide 100% of technical data packages to be used as SSM decides; and to assume what US defense firms have categorically described as excessive liability, well beyond that found in contracts elsewhere. SSM characterized the contract as an attempt to standardized all RFPs and contract requirements to simplify the comparison between bids. The net effect, however, has been a slow exodus of American companies' interest in the Turkish market.

PAST AS PROLOGUE?

Past:

[4](#). (C) In the past five years three US defense firms (General Dynamics, Bell Textron, General Atomics Aviation) have closed their offices in Turkey. General Dynamics departed after a tender for main battle tanks was canceled in 2004 (along with tenders for an attack helicopter and UAV system), and Turkey contracted with Germany for the purchase of used Leopard tanks and with Israel for the upgrade of Turkey's GD M-60 tanks. Bell Textron, which won the original 1997 tender for attack helicopters, left in 2005 after the first tender was canceled and the Feb. 2005 tender (a possible \$2B package of up to 91 helos) required the contractor to assume excessive liability and provide an up front USG blessing of the project. GAA also left in 2005, after participating in the

first UAV tender that was canceled and losing the second tender to an Israeli firm just weeks before PM Erdogan visited Tel Aviv.

15. (C) Boeing was the last US defense firm to win a direct commercial sale when, in 2002, it was awarded a \$1.5B contract for four Airborne Early Warning & Control System (AEW&C) aircraft. As a result of protracted negotiations over the price and package, the contract was not signed until late Fall 2005. The first aircraft was delivered in March 2006. Boeing expressed interest in bidding on the second attack helo tender but decided against it when, after months of explaining to the Undersecretariat for Defense Industries (SSM) the corporate (and USG) "red lines" with respect to liability and tech transfer, it was unable to secure any significant changes to the T&Cs (ref h). Bayar insists that SSM wanted Boeing in the competition and did its utmost to alleviate Boeing's concerns. Eurocopter, Italy's Agusta and a South African firm did submit bids in early December, but no winner has been announced. (Note: We understand that none of the bids were fully compliant, but that the companies also provided alternative higher priced bids that may comply.)

Present:

16. (C) Sikorsky faces the same situation. Initially upbeat about the company's ability to compete in a current tender for 52 utility helicopters destined for the Turkish Armed Forces (TSK) and the Forestry Service, Sikorsky considered placing production of its International Blackhawk helicopter in Turkey if it won. Following fruitless negotiations with SSM over the same T&Cs that prevented Bell and Boeing from bidding on the attack helicopter, however, Sikorsky notified us that the company President, Jeff Pino, will inform Bayar on the margins of the March 26-28 ATC conference that it does not plan to bid -- despite a March 17 SSM announcement that Turkey will delay the bid due date until mid-June, the second delay in the bid submission deadline. An outstanding tender for propeller trainer aircraft may also go unbid by a US firm. Raytheon fully expected to participate in the tender until its lawyers reviewed the T&Cs. The local rep. told us that it will not participate unless the problematic T&Cs are changed.

17. (C) While Sikorsky may choose not to bid on the TSK tender, it is committed to see through its struggling Lot II Seahawk deal. EXIM agreed to extend the validity of the remaining \$325M of a 1990 \$1.3B EXIM facility to cover the majority of Turkey's planned \$390M purchase of 12 Seahawk helicopters and the retro-fitting of 7 Seahawks owned by the Turkish Navy (ref g). The deal also grants Turkey the option to order 5 more helicopters by 2007, which the government has informally indicated it will do. This is the third extension of the facility, which was last extended in 2002 to allow Turkey to buy the 12 Seahawks. However, due to extended negotiations, the contract was not signed until June 24, 2005. The three year delay meant that Sikorsky could not deliver the first plane until 2009, one year after the 2008 deadline required in the 2002 facility extension. Even with the extension, negotiations continue over the offset (local production) requirements.

Future - JSF in Jeopardy?:

18. (C) Turkey is a Level III partner in the JSF program with a pledged \$175M investment, of which \$98M has been disbursed, and a pledged purchase of 100 planes. In exchange for Turkey's participation, SSM has requested \$5-\$6B in work share, to include production of a major airplane component. On Mar. 13, a team from Lockheed Martin (LM) briefed SSM on the JSF project status and told it that Turkey stood to earn \$3.6B and possibly up to \$5B in work share over the lifetime of the project. By investing in coatings technology that would allow it to qualify for production of the central fuselage (\$1.4B); providing competitive pricing and quality on those components already earmarked for Turkish production (\$1.0B); receiving expected engine work (\$.6B); and winning 15% of the \$4B in open competition projects, Turkey could earn up to \$3.6B. Turkey's investment in the advanced coatings technology required to cover the central fuselage could lead to additional business, as could the anticipated increase in total ordered aircraft. (Note: We were not present during LM's briefing to SSM and cannot confirm whether LM made clear that the award of the central fuselage to Turkey is contingent on USG approval. End Note.)

19. (C) Bayar reportedly responded positively to the LM presentation but restated his expectation that Turkey receive \$5-\$6B in work share. Since he announced during a Sept. 2005 JSF reception at the International Defense Trade Fair that Turkey is evaluating the Eurofighter as an alternative to JSF, Bayar has made clear that he is willing to walk away from the program if Turkey's requirements are not met. We understand Bayar is pushing for a JSF work share commitment in advance of a planned summer 2006 briefing to the government's Executive Committee, chaired by the Prime

Minister. (COMMENT: By securing a government decision before August, Bayar may hope to ensure that Turkish Land Forces Commander GEN Buyukanit, who is anticipated to take over as Chief of the Turkish General Staff on Aug. 30 (ref a) and has been unhappy about the slow pace of procurements, will have no say in the decision. END COMMENT.)

FMS ALTERNATIVE TO DIRECT SALES

10. (C) After announcing that it would not participate in the attack helo tender, Boeing presented an FMS option to SSM and to the Turkish Land Forces Command (TLFC) and discovered that the military's understanding of FMS was fairly limited. At the request of TLFC Chief of Staff GEN Ergin Saygun, on Mar. 20 ODC briefed TLFC on an FMS alternative for an attack helicopter and other defense equipment. Saygun emphasized the need to keep the meeting close hold. He expressed frustration that the SSM procurement process hadn't produced results, noting that TLFC had been waiting 8-9 years for some equipment. Saygun welcomed the information but said the restriction against deploying FMS-origin equipment to Cyprus would make this a difficult sell to the current government. Saygun acknowledged that the same restrictions applied to US items procured through DCS but said that in a DCS case the government can claim that the competition was open and the US equipment won on its merits. With FMS, the government would have to explain why it avoided an open competition in favor of a "sole source" option with a "Cyprus" restriction.

SSM UNREPENTANT

11. (C) Bayar insists that other foreign companies do not share the concerns of their US counterparts. In his view, the bilateral defense industry relationship has been one-side for too long, with the US selling and Turkey buying. He would like to turn the tables by building an indigenous defense industry that can eventually compete on the world market. By dangling the potential of big sales, Bayar hopes to entice foreign firms to help Turkey achieve that goal, and he believes that US government interest in assuring a US defense firm win will force a re-evaluation of the USG licensing process. At his request PM DAS Suchan visited Turkey in Sept. 05 to discuss the USG licensing process (ref d). Neither that visit, nor the visit of USDP Patrick (ref d) or meetings with Embassy officials have convinced Bayar that the USG will not change its laws or regulations in order to ensure US companies can compete for Turkish tenders.

12. (C) COMMENT: Bayar resents what he views as USG and defense industry attempts to malign SSM's new standard contract as prejudicial against US firms and to work around SSM by discussing directly with the military the FMS alternative to direct sales. He has requested meetings with State and DOD on the margins of the ATC conference. He told the Ambassador on March 22 that JSF is at the top of his agenda; specifically he plans to emphasize the need to maximize work share (although he was "encouraged" by the LM presentation), raise the idea of establishing JSF maintenance capabilities outside the US to permit users "autonomy," and flag Turkey's likely need for help with financing its purchase of JSF aircraft in 2012. He also plans to press Turkey's repeated request that our services use Turkish Armed Forces maintenance depots for work on our equipment in this region. The Ambassador noted that it would be important for him to address the problems US defense companies are having in Turkey as well. We have explained to Bayar and to TGS officials and military service chiefs at every opportunity the USG and US contractor issues with SSM's approach. Either Bayar does not hear or does not care. On March 22 he acknowledged a problem, but tried to suggest that many of our companies' complaints were commercial issues put forward as a negotiating tactic. While in Washington, he needs to hear a consistent message - 1) USG licensing requirements are based on US law and regulation and will not change; 2) the US defense industry unanimously condemns SSM's new contract as prejudicial against US firms; 3) to win JSF work share, Turkey needs to demonstrate a competitive product and price. END COMMENT.

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WILSON